

# ***U.S. Embassy - Skopje***

## **ECON NEWSLETTER 2/2003**

### **MINISTER FILIPOVSKI: PURCHASING OIL WITHOUT TENDER IS LEGAL**

The Government had chosen "Makpetrol" to import the necessary quantity of oil for the state reserves because "Okta" demanded an exclusive right for import and did not meet its custom duties obligations of US\$ 13 million, Minister of Economy Ilija Filipovski said on February 5, 2003. Importing of oil derivatives was aimed at surpassing possible crisis at the local market as a result of Iraqi crisis.

He pointed out that the import of oil derivatives without a tender was in compliance with the Law on State Reserves. "Our aim is to provide sufficient quantity of oil in case of a crisis, i.e to avoid any problems in oil supply that will require extra expenditures in the future period, burdening the economy and citizens," Filipovski said.

### **COMMITTEE ON ELIMINATING INVESTMENT BARRIERS HOLDS ITS FIRST SESSION**

Identifying obstacles to the development of the private sector in Macedonia and their elimination is the main objective of a committee on the project "Study for Administrative Barriers to Investing in Macedonia", which held its first session. Minister of Economy Ilija Filipovski said that the study was part of the World Bank FIAS project, which will be the base for the GOM and the private sector to discuss the reforms in Macedonia.

The Ministry of Economy in cooperation with the World Bank Financial Investment Advisory Service (FIAS) are in charge of the project, aimed to identify administrative barriers. "Political instability and long legal procedures are the main obstacles to the development of private sector in Macedonia," World Bank expert Gregory Kisunko assessed.

### **MACEDONIA DEVELOPS PROGRAM FOR ENHANCEMENT OF ITS EXPORT ON EUROPEAN MARKET**

Macedonian Economy Minister Ilija Filipovski and Swiss Ambassador in the country Stefan Nellen signed a Memorandum for cooperation with the Swiss Program for Export Promotion - SIPPO in Skopje on February 6, 2003. The goal of the Memorandum is to promote and enhance Macedonia's export on the Swiss market as well as on the EU markets.

SIPPO is a joint program of the Macedonian Economy Ministry and Switzerland, which provides assistance to the small and medium sized companies from the member countries through various instruments of interconnection, in order to find partners in Switzerland and in the EU. The SIPPO focuses its activities in several sectors: agricultural products and raw materials, furniture, textile, clothes, technical products, machinery, tools, electronics, software, leather products, jewelry and handmade products.

Ambassador Nellen pointed out that the Memorandum would serve as basis for the future cooperation between Macedonia and Switzerland and that SIPPO would cooperate with all sectors in the Macedonian Ministry of Economy. The SIPPO vice-director Edwin Bruner, who said that Macedonia had solid potential in the field of information technology, attended the signing ceremony. Bruner said that contacts have been also realized with representatives of the organic food producers. Their products, as he said, are greatly demanded in Switzerland.

#### **MACEDONIA AND IMF SIGNED THE LETTER OF INTENT**

Macedonian Minister of Finance Petar Gosev and Head of the International Monetary Fund (IMF) Mission Franek Rozwadowski on the last night of the negotiations agreed on the terms in the letter of intent for signing stand-by arrangement. "This evening, we have reached an agreement on the letter of intent, which will enable Macedonia, after a long period of time, to have an arrangement with IMF," Gosev said at a press conference.

According to the agreed policy, Macedonia's real GDP in 2003 will grow by 3 percent and the inflation will not exceed 3 percent. The projected central and general government budget should save about US\$ 110 million. "This is a very significant segment of the economic policy for the next period. When a country has fixed foreign exchange rate, saving from the public consumption is main pillar that gives ample room and money to the private sector to invest," Gosev said. Achieving this

objective would require strain fiscal and monetary policy, he added.

Besides US\$ 27 million from the stand-by arrangement, Macedonia should receive pledged donors money of US\$ 126 million in 2003 and 26 million in the next year. Rozvadovski said that the arrangement was based on strict fiscal adjustments. The IMF Board is expected to approve the arrangement by mid-April. Asked about the tax rates, Gosev said that the VAT general rate will be cut down from 19 to 18 percent. However, the VAT for some products currently taxed with 5 percent will be raised to 18 percent.

#### **MACEDONIA AND ROMANIA SIGN FREE TRADE AGREEMENT**

On February 7, 2003, the Macedonian Minister of Economy Ilija Filipovski and Romanian State Secretary Eugen Dizmaresku signed a Free Trade Agreement between the two countries. Main goal of this agreement is to boost the economic relations between the two countries and to speed up the process of their entry in the EU. The Romanian market has potential of 22 million customers, but the European competition is already present there.

The foreign trade between the two countries in the period January-November 2002 amounted to US\$ 10.1 million. The highest trade was recorded in 1995 when it reached US\$ 32.2 million.

The free trade agreement will gradually liberalize the trade of industrial products until 2005. In the first year after the implementation of the Agreement the customs rate will be 85 percent of the basic rate, in the second year it will decline to 75 percent, in the third year to 55 percent, in the fourth to 35 percent and in the fifth year the trade between the two countries will proceed without any customs rates for all industrial products. The liberalization in the field of the agricultural and food products will be based on concessions due to the sensibility of this sector.

Stability Pact Special Coordinator Erhardt Busec hailed the signing of Free Trade Agreement between Macedonia and Romania.

#### **PRESENTATION OF ACTIVITIES FOR ENHANCING PRIVATIZATION PROCESS**

The privatization process that started 12 years ago, should be completed by the end of the year, Director of

the Privatization Agency Bosko Stefanovski said at a presentation of the activities for enhancing the privatization process. According to the new model, stocks and shares amounting to Euro 453.7 should be sold through the Macedonian stock exchange by the end of the year.

Economy Minister Ilija Filipovski said that the financial effect could not be estimated at this moment, as it depends on the market. In order to accelerate the privatization process, the stocks, shares and liabilities will be traded electronically, at auction announced at least 30 days in advance. The opening price will not be the nominal one, but a minimal price will be determined, and the market will determine the selling price. In addition, an aggressive media campaign will be launched. If the privatization process is not completed by the end of the year, when the Privatization Agency would be closed, Filipovski said that some of the stocks would be transferred to the Pension and Invalidity Insurance Fund and the shares to the Public Enterprise for Operating Business and Residential Objects.

These activities are aimed at completing the privatization process, so that the businessmen can focus on the production. The privatization process began in 1989, when the initial value of the enterprises was estimated at over Euro 2 billion. Out of 1.700 companies, only 84 have not been privatized yet. The value of these companies is estimated at Euro 42 million.

#### **INCREASED INDEX OF RETAIL PRICES IN JANUARY**

The index of retail prices in January increased by 0.7 percent in comparison to December 2002 and by 2.2 percent in comparison to January 2002. The State Statistical Office says that the highest increase is registered in the non-food industrial products due to the increased oil prices. The index of food products declined due to the lower prices in the meat processing and milk industry. The prices of goods and services for personal consumption measured by the index of costs of living in January are higher by 0.4 percent than in December 2002 and by 0.2 percent than in January 2002.

#### **TRADE UNION FEDERATION ANNOUNCES GENERAL STRIKE**

The Trade Union Federation of Macedonia (SSM) will organize general strike on March 19, if the Government fails to fight out for changes in the arrangement with the International Monetary Fund, if the benefits for the

VAT are not restored and if it does not change its position on the Law for the loss-making companies. The preparations for the general strike have already started, SSM president Vanco Muratovski said.

"The SSM believes that arrangement with the IMF should be signed, but that arrangement must not cause damage to the workers. At the moment, we have 374,000 unemployed persons, 46,772 workers in bankrupt companies, 100,000 workers who do not receive salary on regular basis and 82,556 households who live on social aid. Muratovski said that the SSM should not ask for a meeting with the Prime Minister, but the Prime Minister should ask for a meeting with them. Pointing out that the SSM strongly remains on its position for adoption of a law for the loss-making companies, Muratovski said that the Government had enough time to reconsider about the need of this law. "No one can even think that we have forgotten the 7,000 workers from these companies and we will not let any Government to manipulate with us," he said.

He also said that the Government, and not the IMF or the World Bank, should resolve the problems of the workers in Macedonia, because these workers are also the voters who elected this Government. The SSM demanded scheduling of urgent session of the Economic-Social Council which will be focused on the arrangement with the IMF and on the cancellation of certain workers' rights included in the collective agreements.

#### **IMF ARRANGEMENT DOESN'T MEAN HIGHER PRICES FOR WATER AND ELECTRICITY**

Signing of an agreement with the International Monetary Fund was a must for Macedonia and any other option would have been disastrous for the country, Prime Minister Branko Crvenkovski said on February 11, in an interview with the Macedonian Television. Referring to announced changes of the VAT from 19 and 5 percent to 18 percent, Crvenkovski said that last year's excessive expenditures would have to be reimbursed this year.

Commenting on the claims for raising the prices of some communal services, Crvenkovski said that prices of water supply would remain unchanged, as this service belongs in the category of food products, which are not subject to VAT changes. He also expects the prices of electricity supply to remain unchanged. Current changes in the VAT would reduce the tax burden on economy, he added.

## **NEW VAT WILL ONLY RAISE INFLATION RATE BY 0.5 PERCENT**

Increasing of the VAT in accordance with the IMF arrangement, will not raise the overall costs of living and harm the citizens' living standard. It may only raise the inflation rate by 0.5 percent, Macedonian Minister of Finance Petar Gosev said on February 12, at a press conference.

"It is not true that the VAT increase will also accelerate the expenses of the bread producing companies. They can only use this as an excuse if they plan to increase the price and to make larger profit," Gosev said. Gosev also said that the price of the electricity power would remain on the same level, although, he admitted that this is very sensitive issue, and the Government will have to again analyze it.

As Gosev said, if structural changes in the taxes were not carried out, the country would have faced with significant deficit. "A deficit in situation of absence of arrangement with the IMF would have meant losing foreign currency reserves of at least Euro 90 million, which would have caused inflation," he said. The new VAT rates will be enforced after the adoption of the budget.

## **ADMINISTRATION WILL SPEND LESS IN FAVOR OF ECONOMY, PM CRVENKOVSKI SAYS**

"We are planning to cut drastically the spending of the Government and governmental institutions, in favor of economy," Macedonian Prime Minister announced on February 13, in his address to the American-Macedonian Chamber of Commerce. Speaking of the direct implications from the recently signed arrangement between Macedonia and the International Monetary Fund (IMF), Crvenkovski said that the Government planned to reduce the tax burden on economy by US\$ 93 million compared to last year. "This means that the state administration will spend less, in favor of the companies," Crvenkovski emphasized.

He added that the Government intended to reach a GDP growth of three percent and to reduce the budget deficit to only two percent. "With such economic policy we truly believe to achieve sustainable fiscal and monetary position and to stimulate the economic growth on solid ground," Crvenkovski said. He thinks that this reform policy will enhance the cooperation between the country and the international institutions.

As one of the economic priorities of the Macedonian Government, Crvenkovski pointed out the completion of privatization process. He said that everything that is owned by the state would be transparently offered for sale according to precise and publicly announced regulations. Another priority is to provide maximum transparency of public tenders and supplies.

Crvenkovski said that the Government would make efforts to help the Macedonian bankers to reach a compromise with the businessmen in order to eliminate the paradox of banks that have money surplus and companies faced with their own insolvency. He expressed hope that he would discuss specific projects of common interest at the next meeting with the representatives from the American Chamber of Commerce.

#### **MACEDONIA SHOULD IMPORT ONE BILLION KWH ELECTRICITY BY THE END OF 2003**

The Association of Energy in the Macedonian Chamber of Commerce concluded that the increased import of electricity and the lower domestic production pose serious economic problems. Dimitar Hadzimisev, President of the Association said that the energy balance for 2002 shows that this year the country will have to import one billion kWh of electricity.

Academic Nikola Bosevski said that he was concerned over the increased distributional expenses. If this situation continues, it will bring under question the quantities of coal needed for the production. "The situation is stable, but only for the moment. In eight to nine years the Bitola mining and energy plant will be left without fuel. It is about time the Chamber to alert the GOM to provide new quantities of raw materials," he said. In his opinion, the country should satisfy about 80 percent of its needs from the domestic production.

Officials from the energy sector in the Ministry of Economy said that negotiations for so-called "soft" credits have started with several international institutions, i.e. with the European Bank for the construction of the Macedonia-Bulgaria power line, and with the USAID for restructuring of the privatization of the power company ESM. By the end of March the Ministry of Economy should complete the Energetic Strategy of Macedonia until 2020.

#### **GOVERNMENT ADOPTED DRAFT-BUDGET FOR 2003**

Macedonia's budget, adopted on February 13, will amount to Denar 67 billion. Therefore, it will be reduced by 9.6 percent compared to the 2002 budget. Minister of Finance Petar Gosev told the press conference that the total revenues in the state budget will be Denar 55.1 billion - 5.2 percent less than last year, while the total expenditures will be Denar 59 billion i.e. 10 percent less than in 2002. The projected deficit is Denar 4.072 billion, i.e. 1.6 percent of GDP. In comparison to last year, the deficit is reduced by 50 percent, mainly due to increased projected savings.

The budget of the Pension and Invalidity Insurance Fund will be Denar 27.9 billion, of the Health Insurance Fund - Denar 13.9 billion, of the Roads Maintenance Fund - Denar 4.7 billion and of Employment Fund - Denar 6.3 billion.

"Such budget projection means that the tax burden will be lower," Gosev said, adding that by adopting the draft-budget the Government kept its promise to cut the expenditures. "In order to realize the projected budget, which is significantly reduced, discipline will be required from all users," Gosev emphasized.

The budget draft, agreed with the International Monetary Fund, will be submitted to the Parliament on March 21, along with the draft-laws on budget execution, changes and supplements to the budget. The parliamentarians should also review the changes to the Law on Value Added Tax.

#### **EU GRANTS EURO 5.6 MILLION FOR SMALL AND MEDIUM SIZED ENTERPRISES DEVELOPMENT**

The European Union granted Euro 5.6 million to the Macedonian Government for development of the small and medium sized enterprises. These funds are part of the wider EU program for assistance to Macedonia, i.e. for enhancement of the economic and social development. With this grant, the overall funds that Macedonia has received from the EU for SME development amount Euro 16 million. This program was launched in 1998, when the first Euro 5.1 million was approved.

The Memorandum was signed by the Macedonian Vice Prime Minister Radmila Sekerinska and the representative of the European Agency for Reconstruction, Daniel Juliaris. "The project is being realized successfully and so far it enabled distribution of 600 loans and opened 2,500 new jobs," Juliaris said, expressing hope that the new grant



would even more enhance the economic development and would open new jobs. Vice Prime Minister Sekerinska said that these funds on a short run would lower down the interest rates, and on a long run they should increase the number of business entities in Macedonia capable to exit on the European market.

#### **NATIONAL BANK OF MACEDONIA DECIDED TO CUT ITS INTEREST RATES**

The Council of the National Bank of Macedonia (NBM) decided to cut its annual interest rates. Accordingly, the rates for lombard credits will be reduced from 23 to 17.5 percent. The discount rate will be reduced from 10.7 to 8 percent, thus cutting the penalty interest rate from 32.1 to 24 percent. The NBM Council considers that this decision will cut the interest rates of commercial banks.

#### **MODEL FOR TRANSFORMATION OF "MACEDONIAN RAILWAYS" DETERMINED**

The Government's working group and World Bank experts determined the model for transformation of the "Macedonian Railways" company. According to this model, the enterprise will be transformed in two independent companies, infrastructure and transport. The infrastructure part at first will be state owned and later it might be leased for three to five years. The transport part will operate as stock company, divided on cargo and passenger traffic.

The Director of the "Macedonian Railways" denied that the transformation would result with layoff of 2,700 workers. He said that they will determine how many workers will be needed in the two sectors and how many will be retired. Starting from Wednesday the "Macedonian Railways" will launch the transport of 150,000 tons of oil products for the "Makpetrol" company. From this activity the company will make profit of Euro 1.3 million.

#### **EX-YUGOSLAVIA SUCCESSOR COUNTRIES REACHED AGREEMENT ON DIVISION OF ART WORKS**

The joint committee in charge of division of the diplomatic-consular property of the former Yugoslavia agreed in Zagreb on the division of works of art, but not on the real estate. "It is not easy to come to an agreement. Each country should give up some of the destinations it is interested in," head of the committee Tatjana Kralj-Dragovic said after the meeting. She said

the most contentious were diplomatic offices in Moscow, New Delhi, Adis Abeba and the EU countries. Dragovic said a decision on dividing of some 300 works of art should be adopted in March, while the hand-over would be completed by mid-May.

#### **ANUAL CONFERENCE "VIP 2003"**

Increased synergy between the private and public sector, the information technology to become one of the pillars of the future prosperity and development, as well as directing the IT companies towards export oriented activities were the main objectives of the annual conference "VIP 2003," which was held in the Macedonian Academy of Science and Art from February 26 - 28, 2003. Representatives of the Macedonian Universities, computer companies and world known companies "Microsoft," "Hewlett Packard" and "Cisco Systems" are took part at the conference.

The Chairman of the governmental Commission on Information Technology Jani Makraduli said that the development of IT in Macedonia should arise from certain international projects such as 'e-Europe', emphasizing that the country ought to adjust to the information culture and this adjustment should be supported by the highest institutions, including the Government.

The draft-plan of IT Commission foresees detailed review of the existing projects in this area, synchronization of the Macedonian legislation with the one in EU, development of national strategy on IT, decreasing the price of Internet services as well as stimulating the IT applications in the private sector. Makraduli emphasized that out of 130,000 registered companies in the Economic Chamber, only 700 have their own web sites.

A key segment is the education, and therefore it is necessary to establish research centers, centers for technology transfer, the computer science to be introduced in the fifth grade of the primary school, to increase the number of IT students, and to equip the scientific and educational institutions. Makraduli announced that the Commission might be transformed into an Agency and even into a Ministry that would be in charge with the activities in this sphere.

The Macedonian Minister of Economy Ilija Filipovski said that the economy could not become more competitive if it does not use the benefits from the information technology. He said that the entrepreneurs had already

understood that the information technology was not an expenditure but instrument for improving the work of companies. He also said that the Government decided to directly stimulate the investments in the information technology by offering minimum or no custom duties for import of this equipment.

#### **PUBLIC TENDER FOR SALE OF "ASTIBO" COMPANY**

The textile company "Astibo" from Stip is the first enterprise from the list of loss-making companies whose status should be resolved this year. The international tender for sale of "Astibo" has been announced on February 24, and the bidders can submit their offers by March 31. The assets will be sold in 12 packages and offers can be submitted for one, several or all of these packages. The purchasers will not be required to make any investments or employment commitments and there is no minimum price.

"Astibo" was one of the largest garment manufacturers in Macedonia, comprising of eleven garment production facilities and a central administration block. The company specializes in loan-work for major western European clients and has a reputation for quality and competitive prices.

#### **CONFERENCE ON TOPIC: "SKOPJE: EUROPEAN CAPITAL IN THE NEW ECONOMIC ERA"**

"Skopje: European capital in the new economic era" is the motto of the conference which was organized by Stopanska bank and the Group of the National Bank of Greece in Skopje on February 27. The conference was sponsored by Macedonian Prime Minister Branko Crvenkovski.

The Prime Minister Branko Crvenkovski opened the conference with the words: "I am certain that Skopje tomorrow will not become capital in the new economic era, but I am more than certain that soon we might become regional center." He added that the Government does not intend to control anyone, but to create favorable environment for the business entities and to attract foreign investments. He said that in this stage of development Macedonia cannot rely only on the domestic accumulation; however it can guarantee macroeconomic stability, liberalization of the market and the labor force, membership in the World Trade Organization and complete simplification of the administrative procedures for influx of the foreign capital.

Greek Minister of National Economy Nikos Hristodoulakis said that the cooperation between the countries in the region paves the path to better future for the entire Southeast Europe. Hristodoulakis said that Greece supports the EU enlargement, adding that the EU summit in Thessaloniki scheduled for June would also be focused in that direction.